IN THE

Supreme Court of the United States

OCTOBER TERM 1943

No. 853

SANTLY BROTHERS, INC.,

Petitioner,

against

W. A. WILKIE, Sometimes Known as BUD WILKIE,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT

JULIAN T. ABELES,
SIDNEY KOCIN,
Counsel for Petitioner.

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TO THE HONORABLE THE CHIEF JUSTICE AND THE ASSOCIATE JUSTICES OF THE SUPREME COURT OF THE UNITED STATES:

Your petitioner above named, respectfully prays for a writ of certiorari to the Circuit Court of Appeals for the Second Circuit, to review the final judgment of that Court entered on January 7, 1944.

Summary Statement of the Matter Involved

The action was begun by the filing of a bill in equity in the District Court, Southern District of New York (R. 2). The bill charged infringement of the common law copyright in the music of respondent's (complainant below) unpublished song entitled "Confessing" by the music, written by one Bernice Petkere (co-defendant below), of a song entitled "Starlight, Help Me Find The One I

Love", published by petitioner (co-defendant below). The trial court determined the music an infringement (13 Fed. Supp. 136). The interlocutory decree appointed a Master to state the damages and profits (R. 11), which was affirmed by the Circuit Court (91 Fed. (2d) 978; cert. den. 302 U. S. 735; reargument 94 Fed. (2d) 1023). The Master's report (R. 194) was confirmed, as modified, by the District Court (Order for final decree R. 237; opinion R. 231, 36 Fed. Supp. 574). The final decree (R. 243) was affirmed by the Circuit Court (R. 253, opinion R. 250, 139 Fed. (2d) 264).

The Master found:

(a) "I do not find *anything actually wilful*[1] in the conduct of defendant Santly (R. 200).

(b) "Santly's *business as a whole was conducted at a loss*[2] during the accounting period * * * but plaintiff is entitled *to separate the Starlight business from the unprofitable business* and recover the *Starlight profits*" (R. 208).

(c) While this is "necessarily a speculative appraisal" it "is *necessary to speculate*" (R. 208).

Although the Master found that the "business as a whole was conducted at a loss", on the theory that petitioner's business was to be considered as two separate businesses he made an award of so-called profits in the sum of $6,619.65, for which respondent had judgment against petitioner, besides costs and the Master's fee (R. 243, 244), *in addition* to judgment (against the writer) for *royalties* (R. 209) in the sum of $779.65 (R. 242).

Questions Presented

The case presents the important question (concerning common law or statutory copyright infringement) if (a)

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[1] All italics are petitioner's.

[2] $46,922.91.

the infringing item is a *regular article of manufacture* and (b) the business is found to have been *conducted at a loss* during the accounting period:

(1) Can the infringing business be separated from the business in which, in common parlance, the infringement was committed, in order to create and award so-called profits?

(2) Can an arbitrary award of so-called profits be made which is admittedly not based upon any actual gains obtained from the business in which, in common parlance, the infringement was committed?

(3) Can any arbitrary method of calculation be employed to create infringing profits in contra-distinction to actual profits?

(4) Should not respondent's recovery be limited to damages on the "reasonable royalty basis"?

Reasons for Granting the Writ

1. Counsel has been unable to find any other decision in which it has been determined that (a) where the infringing item is a regular article of manufacture (in contradistinction to a patented manufacturing apparatus, process or improvement used to alter or better a regular article of manufacture) and (b) the business is found to have been conducted at a loss during the accounting period, that plaintiff is entitled to separate the infringing business from the non-infringing business so as to create infringing profits.

2. The Master said that while petitioner's business "was conducted at a loss during the accounting period" that "plaintiff is entitled to separate the 'Starlight' business from the unprofitable business" in order to create infringing profits (R. 208). The Circuit Court said (A. N. Hand, Chase, Clark): "It did operate at an overall loss,

but that gave it no immunity from accounting for any profits made by the infringement merely because they were less than enough to make its entire business profitable" (R. 251).

(a) The decision of the Court below is in conflict with the prior decision of three different Judges (L. Hand, Rogers, Hough) of the same Court, on the same matter, in *Merrell Soule Co.* v. *Powdered Milk Co.*, 7 Fed. (2d) 297, 298:

> "The award of profits is admittedly *not based upon any actual gains* obtained by defendant *from the business* in which, in common parlance, the infringement was committed. * * * *defendant's entire business* (i.e., the making of butter and powdered milk) *showed* a loss. The master *made an award of so-called profits,* however, on the theory that defendant's creamery was to be *considered as two separate businesses* * * * that there were no actual gains stands admitted. Rubber Co. v. Goodyear, 9 Wall. 801, 19 L. Ed. 566; * * * To construe that allocation of profits as warrant *for separating one business into two,* and punishing even an infringer for not having more successfully infringed, cannot be done in reason, and the procedure also renders the case opposed to the ruling decisions above quoted."[3]

Merrell Soule Co. v. *Powdered Milk Co.*,[4] *supra,* was cited and followed by the same Court (Hough and Manton, Cir. Judges, A. N. Hand, D. J.) in *Vapor Car Heating Co.* v. *Gold Car Heating & Lighting Co.*, 16 Fed. (2d) 194 (cert. den. 268 U. S. 705) 197:

> "We approve of the master's holding that only actual profits could be recovered, and think the rule fundamental, Merrell, etc., Co., v. Powdered Milk Co. (C. C.A.) 7 F. (2d) 297, and cases cited."

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[3] The Court said (p. 299) plaintiff's recovery should be limited to damages on the "reasonable royalty basis".

[4] Neither this case nor any of the three following are mentioned in the Circuit Court's opinion.

(b) The decision of the Court below is in conflict with the decision of this Court, on the same matter, in *Rubber Co.* v. *Goodyear,* 9 Wall. 801 (infringement of an *article of manufacture*) cited and followed in *Merrell Soule Co.* v. *Powdered Milk Co., supra,* in which this Court said (p. 804):

> "'The profits made in violation of the rights of the complainants' in this class of cases, within the meaning of the law, are to be computed and ascertained by finding the difference between cost and yield. * * * The caluculation is to be made *as a manufacturer calculates the profits of his business.* 'Profit' is the gain made upon any business or investment, when both the receipts and payments are taken into the account. The rule is founded in reason and justice."

(c) The decision of the Court below is in conflict with the decision of the Third Circuit, on the same matter, in *MacBeth-Evans Glass Co.* v. *L. E. Smith Glass Co.,* 23 Fed. (2d) 459, 461, 462 (infringement of an *article of manufacture*):

> "It[5] was a suit for infringement of a patent for an *apparatus and process* of manufacture, *not for an article of manufacture.* Accordingly, the accounting was not for profits derived from infringing sales but for the infringing use of the patented machine and process. Primarily, the measure of profits derived from an infringing use is the infringer's gain or saving."

3. The Circuit Court cited four cases as authority for its unprecedented determination. But all of these cases involved the infringer's *gain or saving,* through the use of a patented *apparatus, process or improvement* to alter or better an article of manufacture, viz:

> *Tilghman* v. *Proctor,* 125 U. S. 136 (*Patented manufacturing process*);

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[5] Referring to a prior decision of the same Court in Continuous Glass Press Co. v. Schmertz Wire Glass Co., 219 Fed. 199.

Fox Typewriter Co. v. *Underwood Typewriter Co.*, 287 Fed. 447 (*Patented improvement to regular article of manufacture*);

Mowry v. *Whitney*, 14 Wall. 620 (*Patented manufacturing process*);

Brown Bag-Filling Machine Co. v. *Drohen*, 171 Fed. 438 (*Patented device for filling bags*).

The Circuit Court was obviously misled, by the citation of these four cases (and others to the same effect) by respondent in its brief under the erroneous statement "the courts have consistently stated that losses incurred by the infringer in his business generally may not be deducted from the profits of an infringement or utilized to create the argument that there were no profits". The other cases cited by respondent in its brief were all in the same category, i.e., involving the infringer's gain or saving through the use of a patented apparatus, process or improvement to alter or better an article of manufacture—*none of them involve the infringement of a regular article of manufacture,* viz:

Crawford Patent, 94 U. S. 695 (Patented apparatus for mending rails);

Celluloid Mfg. Co. v. *Cellonite Mfg. Co.*, 40 Fed. 476 (Patented manufacturing process);

Morgan Construction Co. v. *Foster Miller Engineering Co.*, 234 Fed. 324 (Patented manufacturing apparatus);

Crosby Steam Co. v. *Consolidated Safety Co.*, 141 U. S. 441 (Patented improvement to regular article of manufacture);

National Carbon Co., Inc. v. *Richards & Co., Inc.*, 85 Fed. (2d) 490 (Patented manufacturing process);

Duplate Corporation v. *Triplex Safety Glass Co.*, 298 U. S. 448 (Patented manufacturing process);

McKee Glass Co. v. *Fry Glass Co.*, 248 Fed. 125 (Patented manufacturing process);

Electrical Engineers Equipment Co. v. *Champion Switch Co.*, 49 Fed. (2d) 359 (Patented improvement to regular article of manufacture);

Permutit Co. v. *Refinite Co.*, 27 Fed. (2d) 695 (Patented manufacturing apparatus);

Producers' & Refiners' Corporation v. *Lehmann*, 18 Fed. (2d) 492 (Patented manufacturing process).

Likewise

Garden Farm Lathe Co. v. *Ford Motor Co.*, 133 Fed. (2d) 487 (Patented manufacturing device).

4. The Circuit Court erred in failing to distinguish between:

(a) A suit for infringement of an article of manufacture, and

(b) A suit for infringement of a patented manufacturing apparatus, process or improvement used to alter or better an article of manufacture.

In *Merrell Soule Co.* v. *Powdered Milk Co.*, *supra*, the District Court had fallen into the same error. The same Circuit Court, in reversing, clearly distinguished between (1) a suit for infringement of an article of manufacture and (2) a suit for infringement of a patented manufacturing apparatus, process or improvement used to alter or better an article of manufacture (p. 298):

> "In the court below, this method of constructing an imaginary business for the defendant, and mulcting him in what he would have made had he embarked thereupon, was thought to be justified by Hemolin Co. v. Harway, 166 F. 434, 92 C. C. A. 186. We find no such ruling there made. In that case defendant was

> and long had been *engaged in making and selling* presumably at market rates and profitably *a well-known commercial article.* The patent there in suit could be used to *alter and better this commercial article—a process* which defendant used, and so infringed."

The same distinction was made by the Third Circuit in *Macbeth-Evans Glass Co.* v. *L. E. Smith Glass Co., supra.*

5. The law was well settled in the Second Circuit and was in harmony with this Court and the Third Circuit until the decision below. Certainty and uniformity in the law is of the utmost importance as the same questions of law will frequently arise in actions involving both common law and statutory copyright infringement.

Jurisdiction

Jurisdiction is invoked under Section 240 (a) of the Judicial Code, 28 U. S. C., Sec. 347 (a) as amended, and Section 24 of the Judicial Code, 28 U. S. C., Sec. 41 (1), diversity of citizenship. Cases believed to sustain jurisdiction are: *Hamilton-Brown Shoe Co.* v. *Wolf Brothers & Co.,* 240 U. S. 251; *Straus* v. *Notaseme Hosiery Company,* 240 U. S. 179.

WHEREFORE it is respectfully submitted that this petition should be granted.

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